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WHAT'S INSIDE

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AICPA

2000 AND BEYOND: USING THE PAST TO MAP THE FUTURE

As CPAs approach the millennium, their world could not be more confusing, more profitable and, possibly, more fun than at any time in their recent past. As one songwriter put it, "To every season, turn, turn, turn." Deregulation and consolidation have led CPAs into uncharted waters—creating uncertainty and heightened anxiety, but also a new competitiveness and an era of creativity. As CPAs increasingly take on the role of business advisers, it becomes relevant for them to examine the past, and also the present, and think about where the next hundred years will take the profession.

The accounting profession has reached new heights. CPAs have evolved from being regarded as bean counters and back-room number crunchers to being sought out as information specialists and trusted business advisers. They have been thought of as "historians"; today, they are perceived as deal-makers and futurists. Business owners turn to the practitioner to advise them on everything from compliance to planning. The CPA must be a good technician, an information technology (IT) specialist, a personnel expert, a sales expert and a psychotherapist—all wrapped into one.

CPAs are expected to guide their clients into the future—to advise on preserving market share, hiring critical employees and establishing and preserving wealth. The CPA is the navigator of the 21st century.

To understand the relevance of all this, we need to look at the profession's history and, thinking a bit out of the box, guess what its future will be in the next millennium.

No pocket protectors

Having survived their "pocket protector" image, CPAs have evolved into personal and business advisers and, even, captains of industry. Their profession has changed as well. Only yesterday CPAs were not allowed to market their

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services to prospective clients. Today, they are among the best communicators in business of their skills and services.

If one were to ask Peter Drucker, Ray Kroc or Sam Walton if the changes would prove to be healthy, I think they would all answer in the affirmative. After all, a competitive environment that brings out the best in all of us is bound to be healthy. CPAs entered the competitive world very late. They had to learn how to market and sell, to make better presentations than their competitors and to price the value of their services. Most CPAs, in fact, still do not charge nearly what they are worth to clients—something the profession must deal with to be truly successful.

"It is absolutely imperative for practitioners of the new millennium to become technologically proficient."

Totally digital

Technology has had the greatest impact on the profession's present and remains a major challenge for its future. At issue is how CPAs can use technology not only to better serve their clients but also to increase the efficiency of their firms and produce greater profits.

I have been an observer of the profession for over 20 years, yet it's still frustrating to hear of practitioners who spend as little as 5% to 9% of their gross revenues annually on technology. They expect their limited technology resources to drastically reduce engagement time and lower client fees—in my opinion, they're making a terrible mistake.

Technology should be used to leverage time and billing rates—to increase the quality and timeliness of work to the client and allow the practitioner to maximize fees. It is to be hoped that, as CPAs enter the window of opportunity in early 2000, they will learn to use technology to increase profits. Clients will never object to more timely, value-added products.

It is absolutely imperative for practitioners of the new millennium to become technologically proficient. In the next decade, the profession will experience a movement toward a paperless society, the advent of the virtual office and the demise of the fax machine and voice mail. All will be replaced by digital technology.

A new structure

The effects of deregulation and consolidation will transform the public accounting firm into a one-stop shop. Deregulation will have a major effect on services, products, fees and commissions. I expect all state boards of accountancy will eventually approve rules that will allow CPAs to share fees and commissions on financial products such as money-managed accounts, mutual funds and even insurance products.

The question remains: Will the CPA's image be tainted by his or her willingness to accept commissions on products. I believe the CPA's integrity can withstand this threat. But clients will expect their CPAs to be the gatekeepers of their investments, to remain objective on products such as funds and insurance vehicles and to continue to be advocates, not product providers.

If CPAs continue to be objective advisers, the public will not begrudge them their share of fees or commissions. But the debate, nevertheless, will continue as to the ethical and moral role of CPAs in selling products. By 2005, most CPA practitioners will participate in the arena of financial advice and will do so with full disclosure and with the client's support.

Who will be the competitors?

With the arrival of American Express, Century Business Services, HRB Business Services and a host of others, the landscape of the practitioner has changed dramatically. It will continue to change. By 2010, as many as 60% of the CPAs presently in public accounting will be employed by public companies as a result of the actions of major con-

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Editor: John von Brachel

solidators and of mergers and acquisitions between CPA firms. In the future, not only will traditional consolidators aggressively acquire more firms, but so too will large banks and Wall Street investment firms.

The impact on the local CPA practitioner could be devastating. Revenue for smaller firms could decline by 35% as a result of their inability to compete with national entities. On their own, small firms may not be able to keep up technologically, afford quality personnel and provide one-stop shopping.

To survive, such firms must join or develop their own national and international associations. They must set up strategic alliances with other firms, and they must hire a variety of different specialists and professionals. By doing so, these firms will hold a special market niche and will be more successful than they have ever imagined.

The fallout

Not all the consolidators will survive in their current structure. Some partners will attach their wagon to the wrong horse, having traded significant ownership for stock, only to find themselves buying back their firms at pennies on the dollar in the next century. Consolidators may lose interest in the deflated stock values or begin to question the rationale for being in the business.

Of course, some corporate consolidators will survive and be very successful. Practice values will continue to rise. Therefore, CPAs who are selling out now and in the near future must get the highest possible price for their firms.

The new century will bring even more changes to the traditional accounting practice, including the movement from hourly billing to engagement and value billing, a new professional services "superstore" that is made up of merged CPA firms and law firms, a new international accounting designation, and a host of IPO opportunities led by Big Five spin-offs.

The ability of CPA firms to hire and retain quality personnel will continue to be a problem. Partners must be willing to do more to share their wealth in order to pay talented recruits signing bonuses and higher base salaries. The 150-hour educational requirement may also reduce the number of new CPAs entering the workforce although the recent accounting graduates, having spent more time in school, are likely to be more committed to the profession. This means that colleges must adapt their curriculums to teach what the CPA of the future needs to know and not just how to pass the CPA exam.

Remain unique!

What will make the difference? In the next millennium, what will separate the winners from the losers? Perhaps we can learn from the companies that are very successful now. The best service and product providers offer something different so they can rise above the competition. In the world of retail, it is Nordstrom and L.L. Bean. What makes them successful is their ability to provide total client responsiveness (TCR). Those CPA firms who wish to stand out must instill in their firm culture their own version of TCR. Following are some of the attributes CPA firms must have to distinguish themselves as world-class competitors:

- Top-quality advice and products.
- Superior service. Response time must exceed client expectations.
- A focus on niches and specialization—litigation support or financial and estate planning, for example.
- Owner support for marketing and marketing staff. That means making non-CPA marketing professionals partners.
- Fast-paced innovation. The firm must invest in new services and strive to create one-stop shopping for the client.
- Support, both financially and emotionally, for highly talented staff.
- Matrix management and engagement teams that replace old titles, such as "staff," "senior," "supervisor," "manager" and "principal" with "associate" and "consultant."
- Time and resources to replace hourly billing with value billing based on the difficulty of the problem, the sophistication of the staff provided and the results of the engagement.
- International resources. The ability to help clients make the most of overseas markets.

The firm of the new millennium also will require its leadership to develop a new way of looking at things. Partners and managing partners must develop an inspiring vision, expect the highest integrity from each employee and encourage staff-level entrepreneurship. They must help their staff grow, using mentoring programs, and also be flexible with respect to employees' personal needs if they expect them to stay with the firm.

To improve the firm's responsiveness and instill a positive attitude toward clients, the entire staff will need to acquire a "business-adviser way of thinking" in the new millennium. The firm must decentralize its information, authority and control and relieve its staff of "paperwork." Above all, the CPA of the next century must learn to think out of the box and become the clients' consultant—the full-service provider those clients have come to trust and rely on as part of their team. ✔

—By **Jay N. Nisberg**, *a consultant to the CPA profession. Address: 9 Chipmunk Lane, Ridgefield, CT 06877; phone: 860-350-1664; e-mail: bkhudso@ibm.net.*

MARKETING: THE CLIENT SATISFACTION SURVEY

The client satisfaction survey is one of the most misused and misunderstood marketing tools used by CPA firms. The survey frequently fails to provide partners with useful information and may even give them information that is misleading. The most important reason to perform a client satisfaction survey is to find out what your clients' intentions are. For example, does the client intend to use your services again?

Unless you ask clients about their intentions, your satisfaction survey will not work. For example, Sony Corporation asked teenagers in a focus group which color portable radio/CD player they preferred—black or yellow? The overwhelming response was "yellow." At the end of the three-hour session, the teenagers were told to pick out their choice of a free boom box as a gift for participating in the focus group. The majority walked out with a black radio. The key to client intention is not what people say, it's what they do.

Consider the following when you prepare your next client satisfaction survey so you can pinpoint your clients' real intentions—what they are planning to do.

Ask the right questions

The following questions are designed to reveal client intention:

- Will you come back to us for your next need?
- Have you referred us or will you be doing so?
- Would you use us for other services?

How many times have you been satisfied with a restaurant, but never returned? The purpose of your survey, therefore, is to better understand the intentions of your client, not how good your service has been.

Design a competent survey methodology

Even a 35% response rate from clients may not reflect the population of the client base. What about the 65% who did not respond? Were the responses from your best clients or your worst clients? Were the client responses provided by a decision-maker, influencer or someone else? For example, in a recent research report, hotel owners learned the predominant responders to in-room video surveys were children left unattended in the hotel room—not the parents who chose the hotel and paid for the room.

Design a methodology that provides you with reliable feedback on your most important clients. For example, personal or telephone interviews of your largest clients will receive a much higher percentage response rate than mail surveys. If you insist on using a mail survey, at least send a gift to reward your client for completing the questionnaire for you.

Should every firm do a survey?

In many cases, a survey is the least effective method to learn what you need to know. If you do business with a limited number of clients and send them a survey every year, you will create survey burnout. If your clients have a complaint about your service, your people or your billing methods, it is unlikely they will actually put that information in writing on your satisfaction survey.

CPAs are better off visiting each client individually and exploring their perceptions in depth. But, remember, not all clients' comments are created equal. In a typical mail survey, the responses of a $300 tax return client will receive the same weight as the responses of a $100,000 client.

Take every client interaction very seriously

Surveys offer little chance of discovering anything unexpected over and above the topics you choose to include. Unfortunately, many firms simply recycle another firm's survey for their use by changing a few of the questions. This practice will not unveil a new strategy for a competitive advantage.

While client research, focus groups, advisory boards and surveys are tools for helping CPA firms grow and respond competitively to the market place, the process must be carefully designed so it delivers the most useful and reliable information. ✔

—By **Troy A. Waugh, CPA, MBA,** *principal of Waugh & Co, Inc., in Brentwood, Tennessee. Phone: 615-373-9880; fax: 615-373-9885; e-mail: michele@waughco.com.*

BREAKDOWN OF AICPA-AFFILIATED FIRMS

	Number of Firms
1 professional	21,166
2 to 5 professionals	16,440
6 to 10 professionals	3,646
11 to 19 professionals	1,469
20 to 49 professionals	829
50 to 99 professionals	161
100 or more professionals	69
Total number of member firms*	**47,751**

*This total may include firms that provide no audit and accounting services and firms that are not enrolled in a practice-monitoring program. No size information was available for 3,971 firms.

WHY DON'T PARTNERS GET ALONG?

"Isn't it a shame we pay a consultant to travel halfway across the country to get us to really talk to each other—something so simple, yet something we have not been able to do ourselves."

A managing partner said this during a partner retreat. It was the first time the partners of his strife-torn firm had convened a meeting—of any kind—in years.

Sound like an exception? Well, it isn't. Two-thirds of the firms I work with either have major partner-relations problems or a pronounced lack of partner communication.

The CPA profession is undergoing a veritable revolution. Firm partners must contend with the profession's consolidation, the rapid growth of consulting services, the effect of new technology on their day-to-day activities, the need for proactive marketing, a declining supply of good staff and the necessity of adding new professionals to their firms to create multidisciplinary practices. Each of these changes must be addressed by CPA firm partners at a time when the demand for traditional services has never been stronger. Decisions have to be made to prepare for these important changes, but unfortunately the partners in many firms are suffering a form of "paradigm paralysis"—they know they need to change, but they aren't sure how or what they should be. If partners aren't communicating well with each other, or if the firm is experiencing difficulty with partner relations, it is nearly impossible to resolve problems and the firm will be unable to move forward.

> **"If partners aren't communicating, it is impossible to resolve problems."**

Differences between partners

Following are some examples of partner-relations problems common to many small- and midsize- CPA firms:

- Partners do not meet or do not hold retreats. Because of this, they don't have an opportunity to discuss the firm's future or determine how satisfied they are with its present state—and the firm, as a result, lacks direction.
- The firm's two major departments function like two separate firms. Lack of cohesiveness and inconsistent leadership are the result.
- A partner, who's a rainmaker, is interested only in his own practice and how much money he makes. His behavior toward the staff is characterized by surliness and a lack of respect, which may explain the high associate turnover.
- A partner engages in excessive promotional activity outside the firm. This partner's production is well below the other partners and it will affect the general harmony.
- A firm has a production-based formula for partner compensation. Some of the partners dislike it because it discourages teamwork, but the rainmaking partner likes it so it hasn't been changed.
- Partners have widely differing views on the work ethic. One partner works long hours while another comes to the office late and leaves early.
- A partner refuses to follow basic firmwide rules and procedures. The other partners find this tremendously irritating.
- A managing partner cannot manage. If the other partners don't address the problem, it will only get worse.
- A rainmaker distrusts the work of the other partners and will not act as part of a team or delegate work.
- Partners have a long-standing disagreement about partner retirement. Some partners are nearing retirement, and this issue will make for bitter and divisive relations if it is not resolved.
- A firm has a seniority-based partner compensation system. Many partners find this frustrating. Partners who personally benefit from "coasting" do not support any efforts to modify the system.

Communication and partner relations

Often, it is *communication* problems that lead to the partner-relations problems. *Communication* refers to partners sitting down, face to face, sharing opinions, updating each other on various activities of interest and working together to resolve issues and problems. It's the first and most important step in achieving good relations. It's almost impossible to have good relations with someone if you don't spend time with him or her. When communication breaks down, partner relations break down, and the firm and its clients suffer the consequences. Most of the breakdowns are caused by the following problems:

1. ***Partners' not spending enough time together***. If partners don't take the time to meet with each other, discuss issues of substance or share their thoughts and opinions, it's impossible to have *any* kind of relationship. It is important for them to schedule regular meetings, annual partner retreats and periodic "outings" such as lunches and dinner meetings.

2. ***Not addressing conflict***. Managing partners often avoid dealing with partner conflict because they think it will cause partners to leave the firm. Although many part-

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continued from page 5—**Partners**
ners find conflict unpleasant and anxiety-provoking, they would rather it be addressed so the underlying problems can be resolved.

According to conflict resolution expert, Dr. Kenneth Kaye, "Problems among people who work together don't go away when ignored or sidestepped, especially when those people are linked by bonds of economic incentive. Nor do the problems just continue to simmer. As when you put a lid on a simmering pot, the confused medley of grievances, anger and hurt feelings within tend to boil up and scald somebody."

3. ***No accountability***. All partners should be answerable or responsible for their actions and performance. My favorite definition of partner accountability is this: "If there are no consequences to failing to achieve your goals, then it is less likely that your goals will be achieved."

For a firm to have healthy partner relations, the partners must be willing to be held accountable for their own performance.

4. ***Partners' not knowing what to expect from their peers.*** There are questions I ask my clients to which I rarely get good answers: Have the partners taken the time to clarify what everyone's role in the firm is? What is expected of each partner? Have partners been told how they can improve?"

5. ***An unpopular compensation system***. Partner relations deteriorate when a sizable number of partners are unhappy with their pay. Few things contribute more to poor relations than a partner who feels he or she contributes to the firm in a meaningful way, but doesn't get a fair share of the income. Almost as bad is if a "coasting" partner is paid in excess of what he/she deserves.

6. ***An unpopular partner retirement system***. Most firms agree that retiring partners should receive a series of payments for their share of the firm's capital and goodwill. But how much should the retirement payments be? Do the older partners' views on this vary from those of the younger partners? Partner retirement benefits represent a significant unfunded liability to most firms. Unless partners agree on this issue, there is a good chance a firm will break up—through merger or consolidation—when the senior partners approach retirement.

7. ***A lack of clear goals***. What are the partners' goals in areas such as firm profitability, personal earnings, client services, industry niches, marketing, training, management structure and long-term firm strategies? These are important issues. Compatibility and prioritization of the partners' goals in these areas are critical not only to a firm's success but to partner harmony.

8. ***Dissimilar values***. Not all partners have the same work ethic, intellect, commitment to quality, fiscal prudence and leadership qualities. CPA firms should avoid having too many dissimilarities with respect to these and other firm culture issues. The best firms know how to evaluate each partner's strengths and make the most of them. There are no hard and fast rules—what is important is that the partners agree on the value of contributions to the firm and are comfortable with how this applies to compensation. Without this agreement, good partner relations may never be possible.

9. ***A lack of trust***. Without trust, there is no partnership. Issues such as integrity, veracity, honesty and morality are nonnegotiable credentials for harmonious partner relationships.

Steps to success

Firms should take the following steps to ensure they enjoy good partner relations:

1. Hold regular partner meetings, annual retreats and lunches. Make sure all of the partners attend and that the meetings are actual forums for quality communication. Avoid the following scenarios:

- Partner meetings are held irregularly and often cancelled.
- Some partners arrive late for meetings and others leave early.
- Not all of the agenda items are addressed. (If the items are on the agenda, chances are that at least one of the partners thinks it is important to discuss.)

2. Ensure that each partner understands what the firm expects of him or her. Many partners really don't know what the firm or their peers expect of them, and this can be very frustrating. It's difficult for anyone, let alone a partner in a firm, to meet expectations when those expectations have not been clarified.

3. Identify areas of disagreement. Managing partners should help partners resolve their disputes or disagreements. Get the conflicts out into the open. According to one managing partner, "When we disagree at a partners meeting, we ask each side to summarize the other side's argument. It's amazing how often that leads to agreement or compromise. In this way, both sides are forced to listen and attend to the other's opinions. It helps clear up misunderstandings as well."

Firms need to address partner communication and partner-relations difficulties early and often. This may make for some awkward and anxious moments, but it will pay lots of dividends—enabling firms to not only survive, but thrive in these revolutionary times. ✔

—By **Marc Rosenberg**, *owner of the Rosenberg Associates, a consulting firm in Chicago, Illinois. E-mail: mlr48@aol.com.*

PCPS UPDATE

Are you getting the most out of your peer review?

Maximize the benefits you get from your review! Visit the PCPS's "Road Map to the Peer Review Process" at **www.aicpa.org/pcps/index.htm** to learn how you can get the most value from your review. This online guide serves as a reference and resource for PCPS members.

The road map is intended to prepare CPAs for their reviews and provides tips on resolving any differences that occur during the review, gives suggestions on choosing the right peer review team and offers efficiency models. Following is an example of the kind of advice you can expect from the road map:

Measuring your reviewer. Although it is important to establish that a potential reviewer has the proper credentials, there are other things that firms may want to know. Practitioners may believe a compliance review alone is not enough for their firm. They may want to hire a reviewer who will do more than ensure the firm is in conformance with professional standards. Reviewers can be more valuable if they offer firms insights and suggestions that will help them to better manage their practices.

Defining your peer. One important determination to be made is whether the review team comes from a firm that is truly a peer. How does that firm's size compare in terms of billings and number of personnel to the firm being reviewed? What size are its clients? Does it specialize in the same industries and have the same depth of knowledge in those areas? Does it perform similar engagements? Is its personnel of the same caliber? Does it face the same kinds of liability exposure? A review team also should have a personal understanding of the firm's unique practice issues in order to do a good job.

Grow your firm by offering additional services

Check out "Insights," PCPS' new online video, which highlights how CPA firms are restructured to offer consulting and assurance services. The how-to video profiles GEMKO, a technology consulting firm subsidiary created by Gaines, Metzler, Kriner & Co., LLP, a CPA firm in Buffalo, New York. GEMKO was formed in 1991 to offer a series of customized technology applications for its client base, including network software integration, local- and wide-area networks and mainframe consulting. The firm also dedicates four full-time marketers to sell the company and its services to new clients. GEMKO's mission is to deliver products and services that can effectively add value for its clients and help improve

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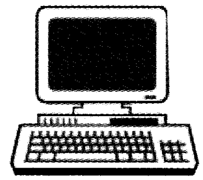
BizSites



Useful Web sites for the practicing CPA

Helping Small Businesses Grow

A very innovative CPA in Greensboro, North Carolina, created a Web site intended to help small businesses solve operational and management problems. The site also provides a valuable opportunity for other CPA firms to network with the small business community and to advertise their services to companies that visit the Web site for help and guidance.

www.helpbizowners.com

Kenneth R. Lenz, CPA, owns his own firm in Greensboro and has been practicing accounting for more than 18 years. Lenz and his partner, John Polston, a seasoned information technology manager and adviser, founded the Web site in March 1999. According to Lenz, he and Polston created the site to provide practical, implementation-oriented advice for small companies to fill a void.

"We searched online and off for a way to avoid business pitfalls," said Lenz. "That's what prompted us to develop something to meet the needs that we and so many other self-employed people have for practical advice."

The site offers answers to business owners' concerns in every area of running a business, and it has efficient search engines to help get users to the heart of a problem and its resolution. For example, a visitor interested in financing issues can click on the appropriate icon and read about related capital, bank loans, factoring and accounting issues.

What's in it for CPA firms? This Web site provides an excellent model of how one CPA creatively markets his services. The site includes a forum for visitors to post questions and/or answers, to network and to refer business. (As the site is only a few months old, there currently are few posted questions and replies on technology and tax issues.)

CPAs can buy business-card advertising space here—information about the CPA firm and its areas of expertise is posted. For example, under each of the specialty areas like "audit tips" and "finance," there is a link, titled "choose a state to find nearby experts to help you," that will list all the advertised firms by region, state or city. CPA firms also can buy banner advertising.

For more information, visit the Web site or e-mail the owners at info@helpbizowners.com.

AICPA/PCPA does not endorse Web sites that appear in BizSites.

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business performance and reduce total costs.

Some of the lessons the firm learned in developing GEMKO:

- Don't bank on the firm name. Sometimes the CPA name, even though widely respected, can be an impediment because it is not associated with the new service.
- Acquire talent. Hire people who can devote themselves full-time to technology.
- Find a champion. It's hard to take a partner away from servicing clients, but a leader to whom everyone will listen is essential.
- Share the pie. Technology professionals tend to be motivated by incentives and creative rewards—they prefer a different compensation structure than CPA firms normally use.
- Identify vertical markets. Select your markets based on expertise you already have so you don't have to learn too many new things.

Plan for 2000

Although you may not be sure what you personally are doing New Year's Eve, at least prepare your firm for 2000 by reading the *PCPS Millennium Report for Member Firms*. The report can be your business and profit planner for 2000. In it, you'll find information and ideas on how you can offer additional new services to your clients. Keep a lookout for this mailing—it may be the most important holiday greeting you receive this year.

All items in this month's PCPS Update are available to PCPS members at no charge. To learn how you can benefit from being a member of PCPS, visit the PCPS Web site at **www.aicpa.org/pcps/index.htm** or call 800-272-3476 (800-CPA-FIRM). ✔

LETTERS TO THE EDITOR

***The Practicing CPA* encourages its readers to write letters on practice management issues and on published articles. Please remember to include your name and your telephone and fax numbers. Send your letters by e-mail to pcpa@aicpa.org.**

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Harborside Financial Center
201 Plaza Three
Jersey City, N.J. 07311-3881
(201) 938-3005
Fax (201) 938-3404
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